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THE GOSPEL OF WEALTH.—II.

BY ANDREW CARNEGIE.

THE problem of wealth will not down. It is obviously so unequally distributed that the attention of civilized man must be attracted to it from time to time. He will ultimately enact the laws needed to produce a more equal distribution. It is again foremost in the public mind to-day.

We have evidence of this in the President's recent speech (April 14th, 1906), in which he gives direct and forcible expression to public sentiment. We quote:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well won and fortunes ill won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course, no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes beyond a certain amount, either given in life or devised or bequeathed upon death to any individual—a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the national and not the State government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

It is seventeen years since THE NORTH AMERICAN REVIEW published "Wealth," written by the writer (republished September 21st, 1906), which strongly urged graduated taxation of estates at death of possessors as the easiest and best mode of

insuring for the community a just share of great fortunes. He is in full accord with the President's views, as quoted, upon this vital question. Continued study has only confirmed him in his conviction of their justice, their beneficent effect upon society, and their necessity in the not-distant future. Much has been written of a contrary character. Graduated taxation has been denounced as unjust and Socialistic, fatal to Individualism and sure to sap the springs of enterprise. If the writer thought it favorable to Socialism or Communism, or in the least degree opposed to Individualism, he would be the last to favor it, for of nothing is he more fully convinced than that in Individualism lies the secret of the steady progress of civilization. Except we build upon the foundation of "As ye sow so shall ye reap," we labor in vain to establish a higher, or even to maintain the present, civilization. Virtue must bring reward, vice punishment, work wages, sloth misery. Energy and skill must win a prize denied to indolence and ignorance. He who sows the wind must reap the whirlwind.

The rights of private property emerged slowly from ages when property was held mostly in common; as civilization advanced men became less communistic and more individualistic. Public sentiment at last sustained private property because it was found favorable, and discarded Communism because it was found unfavorable, to progress; but there is nothing sacred about individual ownership except as man has established it as the system under which progress can be made. There is no cause to fear, therefore, that man is ever to turn round and creep backward toward the barbarism from which he has finally emerged. The law of evolution forbids, for his march is upward. Should he go too far in assessing wealth, he will inevitably reverse his action and adopt that policy which is best for the general good.

First, as to the justice of taxing large fortunes left at death upon a graduated scale for the benefit of the community. Graduated taxes are no new feature. Britain long since adopted them. They are advocated by no less an authority than Adam Smith, who says, "The subjects of every state ought to contribute to the support of government as nearly as possible in proportion to their respective abilities."

Let us go to the root of the matter and inquire how ~~these~~ fortunes are created, from whence and how they arise.

Imagine an honest hard-working farmer who finds himself able to give to each of his two sons a farm. They have married admirable young women of the neighborhood, of good kith and kin, friends from youth,—no mistake about their virtues. The sons find farms, one in the centre of Manhattan Island, the other beyond the Harlem. They cast lots for the farms as the fairest method, thus letting the fates decide. Neither has a preference. The Harlem farm falls to the elder, the Manhattan to the younger. Mark now the problem of wealth, how it develops.

A few hundred dollars buy the farms, and the loving brothers set out for themselves. They are respected by all; loved by their intimates. To the extent of their means, they are liberal contributors to all good causes, and especially to the relief of neighbors who through exceptional troubles need friendly aid and counsel. They are equally industrious, cultivate their farms equally well and in every respect are equally good citizens of the state. Their children grow up and are educated together.

The growth of New York City northwards soon makes the children of the younger millionaires, while those of the elder remain simple farmers in comfortable circumstances, but still of the class who, fortunate in this beyond their cousins, have to perform some service to their fellows and thus earn a livelihood.

Now, who or what made this difference in wealth? Not labor, not skill. No, nor superior ability, sagacity, nor enterprise, nor greater public service. The Community created the millionaire's wealth. While he slept, it grew as fast as when he was awake. It would have arisen exactly as it did had he been on the Harlem and his brother on the Manhattan farm.

The younger farmer, now a great property-holder, dies and his children in due time pass away, each leaving millions, since the farm has become part of a great city, and immense buildings upon it produce annual rents of hundreds of thousands of dollars.

When these children die, who have neither toiled nor spun, what canon of justice would be violated were the nation to step in and say that, since the aggregation of their fellow men called "the community" created the decedent's wealth, it is entitled to a large portion of it as they pass away. The community has refrained from exacting any part during their lives. The heirs have been allowed to enjoy it all, because although in their case the wealth was a purely communal growth, yet in other cases

wealth often comes largely from individual effort and ability, and hence it is better for the community to allow such ability to remain in charge of fortune-making, because most likely to succeed, and in so doing develop our country's resources.

It would be unwise to interfere with the working bees; better allow them to continue gathering honey during their lives. When they die, the nation should have a large portion of the honey remaining in the hives; it is immaterial at what date collection is made, so that it comes to the National Treasury at last.

In a prosperous country, increasing rapidly in population, like our own, by far the greatest amount of wealth created in any department comes from enhanced values of real property.

The Census shows that from 1890 to 1900 the value of Real Estate increased from \$39,544,544,333 to \$52,537,628,164—an increase of \$12,993,083,831.

The obvious creator of this wealth is not the individual but the community, as we see in the case of the two brother farmers. Property may pass through many proprietors, each paying more for it than his predecessor; but whether each succeeding owner sells to his successor at a profit depends almost solely upon whether the surrounding population increases. Let population remain stationary and so do values of property. Let it decline, and values fall even more rapidly. In other words, increased population—the community—creates the wealth in each successive generation. Decrease of population reduces it, and this law holds in the whole of that vast and greatest field of wealth, Real Estate. In no other field is the making of wealth so greatly dependent upon the community, so little upon the owner, who may wholly neglect it without injury. Therefore no other form of wealth should contribute to the nation so generously.

Let us now trace the acquisition of wealth by the active business man who has some personal part, and often not a small one, in creating it.

Imagine four brothers, sons of another hard-working farmer. The first settles in New York City, the second in Pittsburgh, the third in Chicago and the fourth in Montana. The first sees that railroads in every direction are essential to the coming Metropolis and devotes himself to this field, obtains large interests therein; and, as the population of the country increases and that of New York City bounds ahead into the millions, these

lines of transport laden with traffic justify increasing bonded debt. Having the figures under his eye, he sees that the shares of these railways are sure to become dividend-paying, that even already there are surplus earnings beyond the bonded interest, which, if not needed for pressing extensions, could be paid in dividends and make the stock par. He strains his credit, borrows great sums, buys the shares when prices are low, and, floating upon a tidal wave of swelling prosperity, caused by the increased traffic of rapidly increasing communities, he soon becomes a multi-millionaire and at his death his children are all left millionaires. In the consolidation of the various short lines into one great whole there was margin for a stupendous increase of capital; and in other collateral fields there lay numerous opportunities for profitable exploitation, all, however, dependent upon an expanding population for increased values. Now, while the founder of the family must be credited with remarkable ability and with having done the state some service in his day and generation, it cannot be denied that the chief creator of his wealth was the increasing communities along the railroads, which gave the traffic that lifted these lines into dividend-payers upon a capital far beyond the actual cost of the property.

In the work and its profits the nation was an essential partner and equally entitled with the individual to share in the dividends.

The second son is so fortunate as to settle in Pittsburgh when it has just been discovered that some of the coal-fields of which it is the centre produced a coking-coal admirably adapted for iron-ore smelting. Another vein easily mined proved a splendid steam-coal. Small iron-mills soon sprang up. Everything indicated that here was indeed the future iron city, where steel could be produced more cheaply than in any other location in the world. Naturally, his attention was turned in this direction. He wooed the genius of the place. This was not anything extraordinarily clever. It was in the air. He is entitled to credit for having abiding faith in the future of his country and of steel, and for risking with his young companions not only all he had, which was little or nothing, but all they could induce timid bankers to lend from time to time. He and his partners built mills and furnaces, and finally owned a large concern making millions yearly. This son and his partners looked ahead. They

visited other lands and noted conditions, and finally concluded that a large supply of raw materials was the key to permanent prosperity. Accordingly, they bought or leased many mines of iron ore, many thousands of acres of coal and of limestone and also of natural-gas territory, and at last had for many long years a full supply of all the minerals required to produce iron and steel. This was wise policy, but it did not require genius, only intelligent study and good judgment, to see that. They did not produce these minerals; they saw them lying around open for sale at prices that are now deemed only nominal. Much of the wealth of the concern came from these minerals which were once the public property of the community, and were easily secured by this fortunate son and his partners upon trifling royalties.

Their venture was made profitable by the demand for their products, iron and steel, from the expanding population engaged in settling a new continent. Without new populous communities far and near, no milliondom was possible for them. The increasing population was always the important factor in their success. Why should the Nation be denied participation in the results when the gatherers cease to gather and a division has to be made?

The third son was attracted to Chicago, and quite naturally became an employee in a meat-packing concern, in which he soon made himself indispensable. A small interest in the business was finally won by him, and he rose in due time to million-airessdom, just as the population of the country swelled. If Chicago to-day, and our country generally, had only the population of early days, there could have been no great fortune for the third son. Here, as before, it was the magnitude of the business, based solely upon the wants of the population, that swelled the yearly profits and produced prodigious fortunes.

The fourth son, attracted by the stories of Hecla and Calumet, and other rich mines which "far surpass the wealth of Ormus or of Ind," settled in Montana and was lucky after some years of rude experience. His ventures gave him the coveted million-airessdom. The amount of copper and silver required by the teeming population of the country and of other lands kept prices high, and hence his enormous profits mined from land for which only a trifle was paid to the General Government not so long ago.

He did not create his wealth; he only dug it out of the mine as the demands of the people gave value to the previously worthless stones. Here especially we cannot but feel that the people who created the value should share the dividends when these must pass into other hands.

The fifth son had a melancholy career. He settled in New York City while young and unfortunately began his labors in a stock-broker's office, where he soon became absorbed in the fluctuations of the Exchange, while his fond mother proudly announced to all she met that he "was in business." From this the step was easy to taking chances with his small earnings. His gambling ventures proved successful. It was an era of rising values, and he soon acquired wealth without increasing values, for speculation is the parasite of business feeding upon values, creating none. A few years and the feverish life of the gamester told upon him. He was led into a scheme to corner a certain stock, and, as was to have been expected, he found that men who will conspire to entrap others will not hesitate to deceive their partners upon occasion if sure it will pay and safe from exposure. He ended his life by his own hand. His end serves to keep his brothers resolute in the resolve never to gamble. The speculator seldom leaves a millionaire's fortune, unless he breaks down or passes away when his ventures are momentarily successful. In such a case, his ill-gotten gold should be levied upon by the state at the highest rate of all, even beyond that imposed upon Real Estate values. Wealth is often, we may say generally, accumulated in such manner as benefits the nation in the process; here the means employed demoralizes the getter as well as the people, and lowers the standard of ethics. It is taken without returning any valid consideration.

There is one class of millionaires whose wealth in very much greater degree than others may be credited to themselves. Graham Bell of the telephone, Edison of numerous inventions, Westinghouse of the air-brake, and others, who originated or first applied processes hitherto unused, and were sufficiently alive to their pecuniary interests to hold large shares in the companies formed to develop and introduce them to the public. Their wealth had its origin in their own inventive brains. All honor to the inventor! He stands upon a higher platform than the others.

It may be said that in greater or less degree our leading manufacturers, railroad-builders, department-store projectors, meat-packers, and other specialists in one line or other had to adopt new methods; and, with few, if any, exceptions, there can be traced in their careers some special form of ability upon which their success depended, thus distinguishing them from the mass of competitors. No doubt this is correct, yet the inventions or processes used were the work of others, so that all they did was to introduce new methods of management or to recognize and utilize opportunities. This the inventor class have also done if they have become millionaires, but in addition they have invented the new processes. So that these deserve to reap beyond the other class, yet only in degree, because both classes alike depend upon increasing population—the masses, who require, or consume, the article produced, so that even the inventor's wealth is in great part dependent upon the community which uses his productions.

It is difficult to understand why, at the death of its possessor, great wealth, gathered or created in any of these or in other forms, should not be shared by the community which has been the most potent cause or partner of all in its creation. We have seen that enormous fortunes are dependent upon the community; without great and increasing population, there could be no great wealth. Where wealth accrues honorably, the people are always silent partners.

It is not denied that the great administrator, whether as railroad-builder, steamship-owner, manufacturer, merchant, banker, is an exceptional man, or that millions honestly made in any useful occupation give evidence of ability, foresight, and assiduity above the common and prove the man who has made them a valuable member of society. In no wise, therefore, should such men be unduly hampered or restricted as long as they are spared. After all, they can absorb comparatively little; and, generally speaking, the money-making man, in contrast to his heirs, who generally become members of the smart or fast set, is abstemious, retiring and little of a spendthrift. The millionaire himself is probably the least expensive bee in the industrial hive, taking into account the amount of honey he gathers and what he consumes.

An Income Tax is sometimes proposed as one of the best possible modes of correcting the uneven distribution of wealth, but of all taxes this is the most pernicious. It demoralizes a nation.

Mr. Gladstone, one of the greatest financial ministers, advocated its abolition in Britain, alleging that it made a "Nation of Liars." During the Civil War, we had such a tax and paid it loyally, but public sentiment demanded its repeal and it was the first tax remitted when war ceased—justly so because it penalized the honest citizen. Its imposition would be strenuously opposed unless it were graduated and the exemption line placed high, so that the tax should be restricted to the few enormous fortunes. The Supreme Court has declared such a tax to be unconstitutional. No great gain would result to the state from it compared to what would accrue from the easier plan of exacting heavy taxes at death. The date of collection matters little, so that the payment is certain at last. Such proportions can be exacted as are deemed proper from time to time, unless it is generally agreed that great wealth at last pays its fair share to the people of the Nation, who were so highly instrumental in creating it or from whom it was gathered.

The collection of an Income Tax would require a large trained body of permanent officials to collect from indignant, discontented people, naturally resenting intrusive inquiries regarding their private affairs. The honest would always pay, the dishonest would usually escape. Much better that Corporations should be required to pay a dividend tax to the Nation which would be really a tax upon Incomes. It is by doing so that Britain realizes such enormous sums from its Income Tax. Were she to attempt to collect these direct from each individual, it would be found much less productive. So should we find if we made the attempt. There is no reason for so doing. Every dividend-paying Corporation can be made the rigid collector of Income Tax for the Government.

It is clearly at the rich man's death that the community should exact a large share of estate, a graduated share, increasing in proportion to its extent. It should be paid over to the Government and applied to the service of the people, the silent but contributive partner from whom it has been so largely derived. The graduated death duties exacted by Britain might guide us in the beginning. The maximum assessment upon estates to the lineal successors is eight per cent. upon the valuation, but to distant legatees it is very much higher. Smaller estates pay less in proportion.

Such contributions from the owners of enormous fortunes at death would do much to reconcile dissatisfied but fair-minded

people to the alarmingly unequal distribution of wealth arising from the new industrial conditions of our day and the era of unprecedented prosperity our country has enjoyed for years.

The millionaire himself should rejoice at the thought of being a useful laborer in the national vineyard and in knowing that his contribution to the general fund at death will lessen the drain upon the scanty resources of his less successful fellows. Wealth left at death seldom does better service than this.

The people see how equivocally in many cases, how unfairly in others, fortunes have been made. Especially have the numerous failures of prominent men in official position to perform their duties properly deeply impressed them, and produced a strong feeling of antagonism to wealth and millionaires as a class. The appeal to them in the June number of this REVIEW should not pass unheeded. As wealth comes mainly from the community, it should be administered as a sacred trust, by the temporary recipient, for the public good. Property in one sense is a mere creature of the law. Whether the holder be permitted to bequeath it to his successors and to what extent and how, are simply questions of policy for the people through the Government to determine. France has long restricted it. Our States generally designate the widow's share. There is here no question of right or wrong, but simply one of policy,—what is best in all respects for the nation.

Fortunes have recently been more easily made with us than ever, both in number and amount, with the inevitable result that sudden wealth is bound to produce in a new land, which, not so long ago, was much freer from immense fortunes than the older lands of Europe. Millionaires are a recent growth in the Republic. Multi-millionaires were unheard of before our day.

Some sixty-odd years ago, Britain, then in the beginning of the speculative period of railroad construction and manufacturing supremacy, had a somewhat similar experience. Greater fortunes were made than ever before; but the makers, imbued with the aristocratic ambition to become great landowners and county magnates, were soon absorbed into that class. They regarded wealth only as a means to an end,—entrance to the aristocratic and fashionable circle. This refuge new millionaires lack under our democratic system, hence the vulgar, extravagant and offensive character of the follies to which they are driven, that evoke

so much adverse criticism from people of education, good sense, and quiet respectable living, with whom mere dollars count for little. Funds collected by the Government from the estates of the millionaires at death would never be likely otherwise to be put to so good a use as the payment of Government expenditures, relieving the people in part from the burden of taxation.

We are yet as a nation in the heyday of youth. In time we shall tone down and live simpler lives and create different standards. Wealth will be dethroned as higher tastes prevail, its pursuit become less absorbing and less esteemed, and, above all, the mere man of wealth himself will come to realize that in the estimation of those of wisest judgment he has no place with the educated, professional man. He occupies a distinctly lower plane intellectually, and in the coming day Brain is to stand above Dollars, Conduct above both. The making of money as an aim will then be rated as an ignoble ambition. No man has ever secured recognition, much less fame, from mere wealth. It confers no distinction among the good or the great.

Meanwhile, as the masses become more intelligent, they may be expected to criticise and denounce the growth of fortunes which fail to contribute largely to the public good, and finally to insist that they shall be made to do so. The first step to this end should be heavy graduated death taxes upon wealth, in pursuance of Adam Smith's dictum already quoted.

Indications of alarm are sometimes seen regarding present conditions. Fears are expressed that a war of classes may arise. On the contrary, there are none but healthful signs in the awakening intelligence and deep interest of the masses in this problem. Its final solution upon right lines cannot but place the body politic in a much better position than before.

The American people can be trusted to deal with improper methods of business and excessive wealth accumulations wisely and well, to the advantage of the Nation, as they have met and solved other pressing problems, some of which for a time were thought by many likely to cause serious trouble, whereas the commotion only indicated that another step nearer the light was about to be taken. So will it be with this new problem of regulating, as needed, both corporations and individuals, that there may be fairer acquisition and fairer distribution of wealth.

ANDREW CARNEGIE.